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October 3, 2002

Ms. Marlene H. Dortch Secretary Federal Communications Commission 445 Twelfth Street, S.W. Washington, DC 20554

Ex Parte:

Federal-State Joint Board on Universal Service, CC Docket No. 96-45; 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements, CC Docket No. 98-171; Telecommunications Services for Individuals with Hearing and Speech Disabilities and the Americans with Disabilities Act of 1990, CC Docket No. 90-571; Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-237, NSD File No. L-00-72; Numbering Resource Optimization, CC Docket No. 99-200; and Telephone Number Portability, CC Docket No. 95-116

Dear Ms. Dortch:

On October 3, 2002, Susanne Guyer, Ed Shakin, and the undersigned met with William Maher, Carol Mattey, Jessica Rosenworcel and Eric Einhorn of the Wireline Competition Bureau and Wayne Leighton of the Wireless Telecommunications Bureau to discuss the universal service contribution mechanism. We discussed why a revenue-based collect and remit system is the best near-term contribution solution. We also provided additional information on implementation issues related to a connection-based method. The attached material was used in the meeting.

Please associate this notification with the record in the proceedings indicated above. If you have any questions regarding this matter, please call me at (202) 515-2530.

Sincerely,

W. Scott Randolph

Attachment

cc:

William Maher Carol Mattey

Jessica Rosenworcel

Eric Einhorn Wayne Leighton

Universal Service Contribution Mechanism

October 3, 2002



A revenue-based collect & remit system is the best near-term USF contribution solution

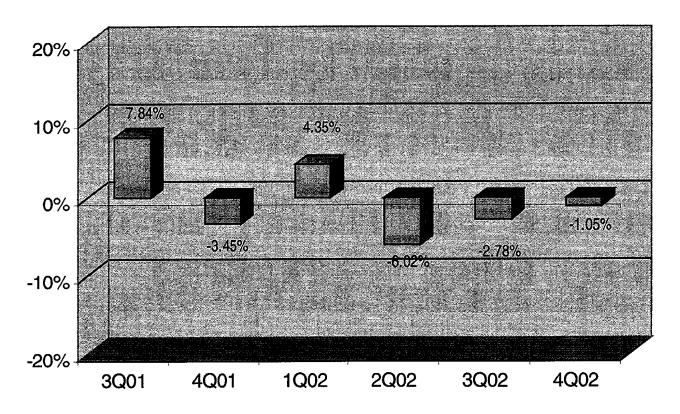
- Verizon's proposed revisions:
 - Move to collect and remit method.
 - Establish a reasonable cap on administrative overhead assessment.
 - Reassess wireless allocation for interstate revenues.
 - Include all broadband transport revenues in the base for schools & libraries fund, but exclude from high cost.

Concerns with the current system are best addressed through adjustments to the revenue-based approach

- Under a collect and remit system:
 - USAC would set the quarterly contribution percentage based on projected fund needs and projections of collected revenues.
 - Carriers would remit payments based on USAC percentage applied to interstate revenues actually collected.
 - Eliminates problems with uncollectibles, lag-times, declining revenues.
 - Prevents assessment of excessive charges by certain contributors.

Interstate retail revenues are not in a "death spiral"

• The rate of decline in reported retail revenue is slowing:



Change in universal service contribution base - USAC

Verizon's proposal results in a surcharge less than currently assessed by IXCs

 Interstate Revenue System Contribution Factor for 4Q2002 under various scenarios of increased CMRS contribution levels with:

	CMRS @ 14.3% (current level)	CMRS @ 18%	CMRS @ 20%	CMRS @ 25%
DSL contributing to all funding components	9.97%	9.60%	9.40%	8.96%
DSL and Cable Modem contributing to only schools/library/RHC	Broadband = 3.46% All other = 10.16%	Broadband = 3.33% All other = 9.77%	Broadband = 3.27% All other = 9.57%	Broadband = 3.12% All other = 9.10%

Note: Contribution factors computed using USAC August 30, 2002 data, public estimates of broadband revenues, and 1% administrative markup for contributors.

The FCC should ensure that all interstate revenues are being captured

- Any system must be verifiable.
 - It's not clear how USAC would conduct audits of a per connection system.
- Revisit the wireless safe harbor.
- Ensure that CLECs report as interstate revenues an amount equivalent to SLC revenues once they capture the customer from the ILEC.

Per connection-based proposals are far too complex and administratively costly

- The record does not contain a reliable estimate of the initial and future impact on consumers, particularly multi-line business.
- Carriers track revenues in the normal course of business; they do not track "connections"
 - New customer record and accounting systems must be developed.
 - "Connections" must be defined, particularly for special access and "dynamic bandwidth" services to achieve consistent counts and ensure assessments are competitively neutral.
 - Historical data at needed level of detail does not exist to enable USAC or carriers to develop reliable forecast of connections.
 - USAC must establish reporting formats, data collection processes, and auditing procedures for each type.

Move to collect & remit at least on an interim basis

 Legal issues inherent in adopting a CoSUS-type connection approach can be avoided by retaining the interstate retail revenue basis with Verizon's suggested revisions.

During interim period, FCC can:

- Analyze other proposals, gather data and assess.
 administrative and consumer impacts of per-connection proposals.
- Address ways to broaden the base of contributors and limit funding needs to mitigate the increased pressure on USF.
- If the FCC chooses to move to any per connection system,
 allow time for orderly transition and implementation.

Implementation Issues with Connection-Based Universal Service Contribution Methods

October 2002



The Commission should not attempt to implement a connection-based universal service contribution methodology by 2Q2003.

- a) The record does not yet contain a reliable estimate of the initial impact on all consumers, particularly multiline business, or the future impact, *e.g.*, 2006. (Compare *ex partes* of AT&T December 21, 2001 to Verizon September 5 to AT&T September 20)
- b) Even if future multiline business charges could be accurately predicted, there is no evidence on the record regarding what businesses currently pay, or how the new charges could skew market-based purchasing decisions.
- c) Adopting a connection-based method without a sound understanding of consumer impact would not be reasoned decision-making.
- d) Even supporters of COSUS admit that full implementation would be problematic and time consuming:
 - AT&T has revealed "that it has difficulty implementing a portion of the COSUS plan." (AT&T September 20)
 - Sprint says 9-12 months would be required (Sprint September 17) to fully implement the COSUS proposal.
- e) Notwithstanding that any lawful connection-based method must assess IXC connections, Sprint claims implementation of an IXC connection charge would entail many problems (Sprint September 17)
- f) A bifurcated implementation approach (single line now, MLB later) would not solve anything, and could lead to unanticipated huge shifts in recovery by class of consumer.

Before implementing a connection-based methodology, a number of critical issues must be addressed and solved:

- a) what are the types of connections to which a contribution charge applies (e.g., interstate special access and dynamic bandwidth services);
- b) how is each type of connection defined so as to achieve consistent counts and ensure assessments are competitively neutral;
- c) does historical connection data exist at the needed level of detail to serve as the basis for projections of connection quantities;
 - how long will it take to generate, gather, and summarize historical connection data, including OMB approval of the necessary USAC forms
- d) determine whether USAC or contributing firms will forecast the second (and subsequent) quarterly connection units, and how long it will take to prepare a reliable forecast;
- e) determine how to address the introduction of an additional half-month delay in USAC's collection of the April payments from the carriers, and
- f) if a bifurcated implementation approach is used, how to develop the interim revenue surcharge to be applied to interstate special access.

¹ AT&T ex parte, September 9, 2002, at n.2.

Data Needed to Implement the COSUS Proposal

Adoption of the COSUS proposal would require the collection of historical data for the following items upon which forecasts could be based:

- a) Lifeline residential connections
- b) Non-Lifeline residential connections
- c) Business single line connections
- d) Business multi-line switched connections not including Centrex
- e) Centrex connections
- f) CRMS connections
- g) Paging connections
- h) Interstate special access end user revenues
- i) Uncollectible factor or factors²

Note that the uncollectible factor or factors is an issue since some companies might argue that various customer classes have different uncollectible rates (may be different for wireless, wireline single line, wireline MLB, wireline special access customers, paging).

Data Needed to Implement Other Connection-Based Methods

Adoption of a variant of the COSUS proposal (e.g., BellSouth/SBC, Joint Board, FNPRM) would also require other historical data and forecast elements:

- a) DSL connections
- b) Cable Modem and all other broadband connections (e.g., fixed wireless)
- c) One way versus two way pager connections
- d) IXC PIC connections
- e) LEC no-PIC connections
- f) Dial around interstate revenues
- g) Pre-paid calling card revenues
- h) Uncollectible factor or factors³

³ An uncollectible factor for IXCs would also be needed.

Additional Concerns Regarding Implementation of a Connection-Based Method

- All contributors must modify their customer record and/or accounting systems to capture connection data at the needed level of detail.
- Methods must be established to count the number of connections for special access services that allow the end user to dynamically configure the bandwidth to meet changing needs on a hourly/daily basis.
- Contributing firms must examine each special access circuit record to determine
 whether channel terminations (local loop portion of circuit) are end user
 connections or connections to interexchange carrier POPs, and modify customer
 account and/or billing records to capture that information for all existing circuits,
 and to gather and retain that same information for all new services ordered.
- USAC must establish the reporting format, create forms, data collection processes, and audit procedures for each defined special access connection.
- A reasonable reporting interval must be created that balances the burden on contributors with the need for current information. The proposed monthly reporting interval will be overly burdensome and consume enormous resources.
- Audit methods and procedures must be developed to ensure consistent and accurate reporting for connections that have never before been counted.

IXC Connection Contribution Issues

IXC contributions must be included in any lawful connection-based method.

Under a connection-based method that includes IXC contributions, IXCs must develop, bill and administer an IXC connection charge.

Sprint complains about the level of administrative burdens and costs associated with an IXC connection contribution element (September 17 *ex parte*), but COSUS would impose those burdens on LECs, paging companies, and CMRS providers.

- Sprint claims IXCs would face great difficulties in implementing an IXC connection charge.
- LECs, paging companies and CMRS providers would face equivalent or greater difficulties in their revisions to administrative and billing systems, associated costs, and the diversion of resources from revenue-producing projects.